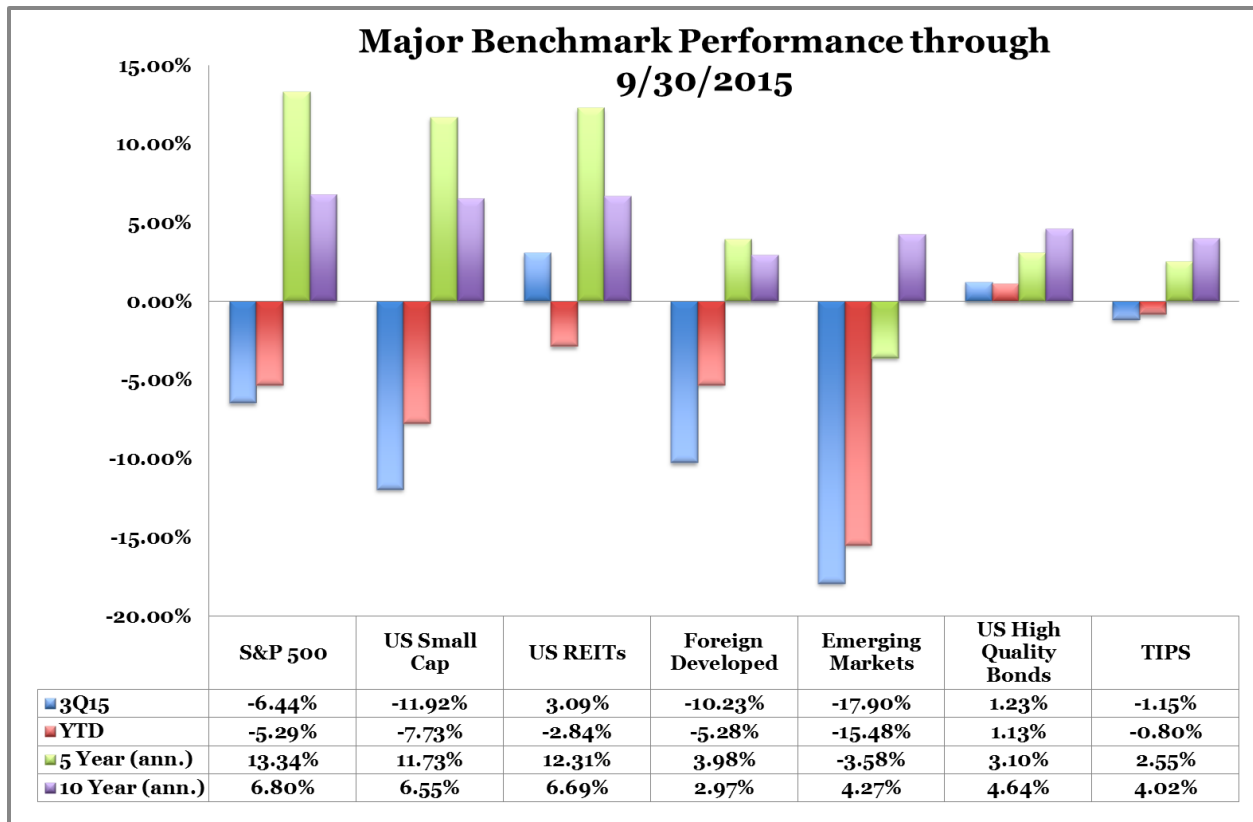


3Q15 IFS Commentary

The 3rd quarter was marked by a downturn in equity markets. This was the worst quarter since the third quarter of 2011, when Standard and Poor's downgraded the credit rating of the United States. As of September 30, 2015, all equity markets are down for the quarter, as well as for the year. The only positive asset class is high quality fixed income. Please refer to the chart below for 3rd quarter, year to date, as well as 5 and 10 year annualized numbers.

We included 5 and 10 year annualized numbers to show that longer term trends are still valid. For example, asset classes are positive through a period that included the 2008 Great Recession. The data show that markets do appreciate over the long-term, and occasional declines are simply part of the process.

We are happy to see the equity markets have been recovering since September 30th.



Source: DFA

Uncertainty related to China's economy and the timing of the Federal Reserve rate increase drove the negative sentiment for the quarter.

Markets are sensitive to uncertainty, and many market participants were expecting the Fed to raise rates at its mid-September meeting. When the Fed did not raise rates, and did not give clear guidance

on its intentions, the markets reacted adversely. The flight from equities to quality was reflected by a drop in the 10 year Treasury bond's yield after the meeting.

China's GDP has slowed to 7%, although many market participants do not believe this Chinese government estimate and think this number is too optimistic. High or low, the main concern is whether China's slowdown will affect other world economies. Countries that export heavily to China (Korea, for instance) could be most substantially affected; this is reflected in the decline of emerging markets.

Although the US does not export heavily to China, investor fear and emotion could result in continued volatility, despite decent US economic numbers. Following is a snapshot of those numbers:

- Unemployment is at 5.1%, which is above the 50 year average. A total of 8.8 million jobs were lost during the Great Recession; approximately 12.8 million jobs have been created since the recession ended in 2009.
- A breakdown of job creation post-recession indicates growth in every sector except government, which has eliminated 600,000 positions.
- Light vehicle sales and real capital goods orders are above their historical averages.
- Housing starts are still increasing, but are lower than the historical average.
- The US dollar is still very inflated relative to major currencies; this has resulted in a higher trade deficit for August, which continues to put a drag on exports, thus slowing US economic growth.

The picture is mixed, but mostly positive. As always, we pay attention to these numbers, but they do not drive us to recommend active trades to "position the portfolio." We continue to recommend a ***diversified portfolio*** because diversification has historically proven to provide the best defense against volatility.

OVERVIEW OF THE MARKETS

Below is how we view the major asset classes. We expect long term growth from equity categories, and stability from fixed income, especially in down and volatile markets.

- **US equity** valuations are closer to being appropriately valued than they were at the beginning of the year. Even though investors are nervous, we do not see any red flags.
- **US high quality fixed income** is slightly up for the year; this is despite pundits' predictions for several years now that fixed income is a terrible investment (due to a potential federal rate increase). We are aware that federal rates need to go up, but we believe the Fed will do so slowly. As we have seen, it's an exercise in frustration trying to time exactly when these increases will start and when is the appropriate time to completely eliminate this important asset class.
- **International equity** valuations are attractive relative to those of the US. Even though performance is down for the year (especially emerging markets), we recommend maintaining some exposure.

- We do not try to predict which sectors will outperform the market; therefore, we do not buy sector funds such as energy or technology. You have exposure to all sectors through broadly diversified mutual funds.
- We generally avoid commodities as they are volatile and tax inefficient. You have limited exposure to them indirectly through other asset classes.

On a more subjective note, we fully acknowledge how disconcerting market volatility can be and understand that it always feels better when the markets go up, not down. Fortunately, over long periods of time the markets appreciate but, as we stated at the beginning of this commentary, occasional declines are part of the process.

It is our mission to help guide our clients through both good and bad market scenarios. What you will not hear from us is our prediction of when things will turn around. What we do promise, however, is to take our fiduciary responsibility seriously by putting our clients' best interests first and working with each of you to help you meet your long term goals.

We thank you for the confidence you have placed in us.

Barry and Janet